SENATE FISCAL AGENCY
MEMORANDUM

FISCAL SENATE AGENCY

DATE: January 25, 2007

TO: Senator Michael D. Bishop, Majority Leader
Senator Ron Jelinek, Appropriations Committee Chairperson
Senator Mark H. Schauer, Democratic Leader
Senator Michael Switalski, Appropriation Committee Vice Chairperson

FROM: Gary S. Olson, Director

RE: Potential Options to Balance the FY 2006-07 State Budget

As a result of the revisions in revenue estimates agreed to at the Consensus Revenue Estimating Conference held on January 18, 2007, the Senate Fiscal Agency (SFA) is now estimating that significant deficits exist in the FY 2006-07 General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) budgets. Table 1 provides a summary of the SFA estimate of a $441.9 million FY 2006-07 GF/GP budget deficit and Table 2 provides a summary of the SFA estimate of a $377.4 million FY 2006-07 SAF budget deficit.

This memorandum is designed to provide options to the members of the Senate that might be considered to eliminate these projected budget deficits. The options include appropriation reductions, revenue increases, and one-time adjustments. The options outlined in the memorandum provide a broad listing of options, but they in no way should be interpreted as a complete set of options that could be employed to eliminate a projected budget deficit. The SFA has prepared these options based on our experience of issues that are likely to be considered when options to eliminate a budget deficit are discussed and debated. The SFA will be happy to provide you with any further background information regarding any of the options contained in this memorandum.

Table 1
FY 2006-07
General Fund/General Purpose
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$ 7.0
Consensus Revenue Estimate	8,230.0
Revenue Sharing Freeze	558.0
Non-Ongoing Revenue Adjustments:	
Land Sales	28.0
Shift of Short-Term Borrowing Costs to School Aid Fund	22.8
Liquor Purchase Revolving Fund Transfer to GF/GP	4.0
Consumer Finance Fees Transfer to GF/GP	7.0
Subtotal Non-Ongoing Revenue	61.8
Total Revenue	**$8,856.8**
Expenditures	
Enacted Appropriations	$9,222.8
Tobacco Settlement Revenue Shortfall	75.9
Total Expenditures	**$9,298.7**
Projected Year-End Balance	**$ (441.9)**

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Table 2
FY 2006-07
School Aid Fund
Revenue, Expenditures, and Year-End Balance
(Millions of Dollars)

	SFA Estimate
Revenue	
Beginning Balance	$ 0.0
Consensus Revenue Estimate	11,240.2
Midland Property Tax Case	(10.2)
GF/GP Grant	35.0
Federal Aid	1,411.2
Total Revenue	**$12,676.2**
Expenditures	
Enacted Appropriations	$13,093.8
Midland Property Tax Case	24.8
Appropriation Lapses	(65.0)
Total Expenditures	**$13,053.6**
Projected Year-End Balance	**$ (377.4)**

Appropriation Reduction Options

To develop a list of appropriation reduction options to balance the FY 2006-07 GF/GP and SAF budgets, the SFA has developed FY 2006-07 appropriation reductions that equate to 10.0% of the GF/GP appropriations in each department. Table 3 provides a summary of these GF/GP appropriation reductions by State department and also provides information as to what percentage of the Adjusted Gross appropriation of each department the GF/GP appropriation reductions represent. We have excluded from the listing of potential GF/GP appropriation reductions debt service payments on State Building Authority bonds (appropriated in the Department of Management and Budget) and debt service payments on General Obligation bonds (appropriated in Treasury-Debt Service). In addition, we have included reductions in State Restricted-funded appropriations in the Department of Transportation and Treasury-Revenue Sharing that, if implemented, increase GF/GP revenue. The GF/GP appropriation reductions contained in Table 3 total $951.0 million; the table also includes a $377.4 million appropriation reduction in the K-12 School Aid Fund budget. The total reduction amount is $1.3 billion.

The GF/GP appropriation reductions contained in Table 3 are built on the assumption that the reductions would be implemented effective on April 1, 2007. This is a reasonable assumption as it will certainly take the Governor and the Legislature time to negotiate and enact any appropriation reductions agreement. Assuming an April 1, 2007, effective date of the appropriation reductions also provides time for the State departments and agencies to implement any appropriation reductions. This is especially important as some of the potential appropriation reductions outlined will require a significant reduction in State employment levels. Pursuant to Civil Service requirements, the layoff of State Civil Service employees requires 30 days of notification to the employee before a layoff can be implemented.

Attachment A provides the details behind the potential appropriation reduction options contained in Table 3. The GF/GP appropriation reductions outlined in Attachment A would result in the layoffs of approximately 5,000 State employees. The actual level of layoffs that would occur is very difficult to quantify as the number is impacted by a variety of factors including current vacant positions in the departments, the amount of annual leave payouts to laid-off employees, and other factors.
It should be noted that in many instances the implementation of the appropriation reductions outlined in this memorandum will require statutory changes. These statutory changes could be accomplished in an Executive Order to reduce State appropriations pursuant to Sec. 18 of Article V of the State Constitution of 1963, or by separate legislation.

Attachment A also contains a discussion of the potential options to eliminate the projected $377.4 million SAF budget deficit. The State School Aid Act provides for a process of implementing a pro-rata reduction of an estimated $215 per pupil plus proportional reductions to intermediate school districts and other entities to eliminate the deficit. We have included an alternative way to eliminate the projected SAF budget deficit with reductions in K-12 School Aid appropriations outside of the pro-rata reduction.

Table 3

Summary of FY 2006-07 Budget Reduction Options

Department/Budget Area	FY 2006-07 Adjusted Gross Appropriation	FY 2006-07 GF/GP Appropriation	Reduction Amount	Reduction as % of Adjusted Gross	Reduction as % of GF/GP
Agriculture	$103,246,100	$30,913,300	$3,093,500	3.0%	10.0%
Attorney General	54,618,000	32,896,000	3,352,500	6.1%	10.2%
Capital Outlay	0	0	0	na	na
Civil Rights	14,020,200	12,454,000	1,257,200	9.0%	10.1%
Civil Service	30,759,000	6,972,400	697,200	2.3%	10.0%
Community Colleges	289,879,400	289,879,400	28,987,900	10.0%	10.0%
Community Health	11,158,871,300	2,940,082,700	294,008,300	2.6%	10.0%
Corrections	1,939,183,100	1,858,555,000	190,032,200	9.8%	10.2%
Education	90,590,100	6,592,500	659,300	0.7%	10.0%
Environ. Quality (Oper.)	411,099,900	33,828,400	3,383,300	0.8%	10.0%
Environ. Quality (CMI Bond)	14,411,000	0	0	0.0%	na
Executive	5,509,900	5,509,900	550,900	10.0%	10.0%
Higher Education	1,787,491,300	1,624,791,300	162,478,900	9.1%	10.0%
History, Arts, and Libraries	54,784,700	43,175,200	4,317,500	7.9%	10.0%
Human Services	4,465,032,600	1,197,447,900	119,744,800	2.7%	10.0%
Judiciary	256,864,600	160,604,800	16,100,000	6.3%	10.0%
Labor and Economic Growth	1,207,990,400	47,436,700	4,743,700	0.4%	10.0%
Legislative Auditor General	14,546,000	13,006,100	1,300,600	8.9%	10.0%
Legislature	116,576,400	115,066,600	11,506,700	9.9%	10.0%
Management and Budget	320,848,500	268,409,600	3,570,800	1.1%	1.3%
Military and Veterans Affairs	121,238,000	40,640,200	4,064,000	3.4%	10.0%
Natural Resources	284,547,300	25,269,600	3,949,100	1.4%	15.6%
School Aid	13,093,745,100	35,000,000	377,400,000	2.9%	na
State	184,793,500	19,132,700	1,954,500	1.1%	10.2%
State Police	546,646,100	249,298,700	24,929,900	4.6%	10.0%
Transportation	3,441,865,300	0	15,890,500	0.5%	na
Treasury (Debt Service)	100,158,200	76,243,700	0	0.0%	0.0%
Treasury (Operations)	375,065,500	56,509,700	5,650,000	1.5%	10.0%
Treasury (Revenue Sharing)	1,107,514,400	1,104,400	41,604,400	3.8%	na
Treasury (Strategic Fund)	80,401,200	32,009,200	3,200,900	4.0%	10.0%
Total	**$41,672,297,100**	**$9,222,830,000**	**$1,328,428,600**	**3.2%**	**10.1%[a)]**

[a)] Percentage excludes K-12 School Aid Fund reductions

The reduction options contained in Table 3 and Attachment A will result in significant reductions in State services and the significant layoff of State employees. The options may not be in the best interest of public policy or politically feasible, but the SFA believes that they do provide you with a wide range of appropriation reduction options that could technically be implemented.

Revenue Increase Options

Table 4 (attached) provides a brief summary of some of the revenue increase options that might be considered to eliminate all or a portion of the projected FY 2006-07 State budget deficit. The table assumes that most of the tax policy changes would be implemented on April 1, 2007. We have included a January 1, 2007, effective date for an increase in the rate of the State income tax and the State education property tax. If a decision is made to increase these taxes, the State, by statute, could implement these increases retroactively to January 1, 2007. Table 4 also includes the yield of these potential tax increases on a full-year basis for the FY 2007-08 State budget. The SFA will be happy to provide you with further background information on these revenue options.

One-Time Adjustments

Over the past six fiscal years of budget difficulties in Michigan, plans to balance the budget have included a significant number of one-time items to increase revenue or reduce appropriations. One-time adjustments can be defined as changes that provide revenue increases or appropriation reductions in a single fiscal year, but do not provide on-going increased revenue or appropriation reductions. Examples of these one-time adjustments utilized over the past six fiscal years include: transferring of funds from the Budget Stabilization Fund, the appropriation of one-time prior-year budget surpluses, the advance of tax collection dates, the appropriation of emergency funds provided by the Federal government, the transfer of surplus restricted fund balances to the General Fund, and temporary wage concessions from State employees.

While these and other one-time adjustments to the budget help balance the current year budget, they create longer term structural problems in the budget. The use of a considerable amount of one-time adjustments in the budget is also a negative factor when debt rating agencies review the credit worthiness of the State in terms of establishing the credit rating on State debts. The following are a list of several types of one-time adjustments that could be considered to help balance the FY 2006-07 State budget.

Retirement System Changes: The required contribution rates to the State Employees Retirement System and the Public School Employees Retirement System depend on certain assumptions outlined in State law. These key assumptions include the assumed rate of return on retirement system investment assets and the methodology used to place a market value on the assets of the pension system. Potential changes in these assumptions could result in reductions in the required employer contribution rates into these systems. The downside of these types of changes are a potential impact on the credit rating of the State and the potential that short-term cost savings would be offset by higher costs over the long term.

Sale of State Assets: Over the past several fiscal years, Michigan has generated limited amounts of additional General Fund revenue from the sale of State assets. These transactions have involved the sale of surplus State land and buildings. In the early 1990s, the State sold the assets of the State Accident Fund to Blue Cross/Blue Shield of Michigan for a significant one-time cash payment. The State of Illinois is currently debating a proposal to sell the Illinois State Lottery to a private company. This sale, if completed, would generate a considerable amount of one-time revenue. Michigan could consider the sale of assets, such as the Michigan Lottery, in an effort to generate one-time revenue. The downside of using one-time revenue to balance a current-year budget deficit is that this practice leads to long-term structural imbalances in the budget. It is also clear that an extensive use of these types of one-time revenue sources could have a potential impact on the credit rating of the State.

The Issuance of State Debt: During 2006, the State of Michigan borrowed $400.0 million against future tobacco settlement revenue to provide a one-time funding source for economic development projects financed by the State. Several states have borrowed against future tobacco settlement revenue and used the proceeds from this borrowing to balance the current year State budget. The downside of this approach is that the borrowing results in significant long-term debt service costs to repay the borrowing and the use of the borrowed funds creates structural imbalances in future State budgets. It is also clear that this approach to balance the State budget could have a potential impact on the credit rating of the State.

Accounting Changes: The State in recent years has used accounting changes as a temporary method to generate one-time savings in the budget. An example of this type of accounting change is how the accounting for the expenditures of the Merit Award Scholarship has been adjusted to reduce actual expenditures. This accounting change resulted in reduced expenditures on a temporary basis. There are certainly other accounting changes that could be implemented to temporarily reduce State expenditures. One such possible change would be in the accounting of the collection of the 18-mill nonhomestead property tax that is used to partially finance K-12 School Aid Fund expenditures. It may be possible to implement a one-time change in the accounting of this revenue source that would reduce State School Aid appropriations by approximately $1.5 billion. The downside of this or any accounting change is the one-time nature of the savings and a potential impact on the credit rating of the State.

The SFA hopes that this memorandum provides you with a comprehensive overview of some options that could be utilized to balance the FY 2006-07 GF/GP and SAF budgets. The options outlined in the memorandum do not cover all of the potential options that could be considered, but they do provide you with a broad range of solutions to eliminate the projected budget deficit.

/kjh

Attachments

c: Ellen Jeffries, Deputy Director

Table 4

Examples of Estimated Fiscal Impacts from Tax Increases in FY 2006-07 and FY 2007-08
(Millions of Dollars)

Tax	Current Tax Rate	Tax Rate Change	New Tax Rate	Effective Date	Estimated New Revenue FY 2006-07	Estimated New Revenue FY 2007-08
Income	3.9%	0.1%	4.0%	1/1/07	$124.4	$168.2
Sales & Use[1]	6.0%	1.0%	7.0%	4/1/07	$690.3	$1,416.5
Sales Tax on Services :[2]						
Accommodations & Food Services	0.0%	6.0%	6.0%	4/1/07	$6.4	$13.0
Administration, Support, & Waste Management	0.0%	6.0%	6.0%	4/1/07	537.6	1,102.1
Arts, Entertainment, & Recreation	0.0%	6.0%	6.0%	4/1/07	166.4	341.1
Construction	0.0%	6.0%	6.0%	4/1/07	665.9	1,365.1
Educational Services	0.0%	6.0%	6.0%	4/1/07	131.7	270.0
Health Care & Social Assistance	0.0%	6.0%	6.0%	4/1/07	1,302.2	2,669.4
Information	0.0%	6.0%	6.0%	4/1/07	213.4	437.5
Professional, Scientific, & Technical	0.0%	6.0%	6.0%	4/1/07	896.2	1,837.2
Real Estate, Rental, & Leasing	0.0%	6.0%	6.0%	4/1/07	215.9	442.6
Transportation & Warehousing	0.0%	6.0%	6.0%	4/1/07	27.0	55.2
Utilities	0.0%	6.0%	6.0%	4/1/07	36.8	75.3
Other Services	0.0%	6.0%	6.0%	4/1/07	192.4	394.3
Subtotal Sales Tax on Services					$4,391.7	$9,002.9
State Education (mills)[3]	6	1	7	1/1/07	$349.1	$367.3
Real Estate Transfer	0.75%	0.25%	1.0%	4/1/07	$20.4	$85.4
Cigarettes (per pack)	$2.00	$1.00	$3.00	4/1/07	$220.6	$432.4
Casino Gaming	12.1%	1.0%	13.1%	4/1/07	$6.7	$11.5
Liquor - GF/GP	4.0%	1.0%	5.0%	4/1/07	$4.4	$8.9
Liquor – SAF	4.0%	1.0%	5.0%	4/1/07	4.4	8.9
Beer (per barrel)	$6.30	$1.00	$7.30	4/1/07	$3.5	$6.9
Wine (per liter)	$0.135	$0.01	$0.145	4/1/07	$0.3	$0.6

1) Increase would require amending the Constitution.
2) Estimates from the FY 2006-07 Executive Budget Appendix on Tax Credits, Deductions, and Exemptions.
3) Increase would require a 3/4 vote in the Senate and House.

Attachment A

Department of Agriculture

A 10.0% General Fund/General Purpose (GF/GP) appropriation reduction equates to $3,093,500. The major components of this reduction would include:

1. Management Services: $325,200
2. Animal Industry Division: $361,800
3. Bovine Tuberculosis: $365,300
4. Pesticide and Plant Management: $705,100
5. Environmental Stewardship Division: $374,200
6. Laboratory Division: $438,300
7. All Other Programs: $823,600

The impact of these cuts would be reduction in the level of services provided. The potential layoffs associated with these reductions would be approximately 15 to 18 Full-Time Equated (FTE) positions.

Office of Attorney General

A 10.0% GF/GP appropriation reduction equates to $3,352,500. The impact of these cuts would result in layoffs of approximately 100 FTEs.

Department of Civil Rights

A 10.0% GF/GP reduction equates to $1,257,200. The impact of these cuts would result in the layoff of approximately 38 FTEs.

Department of Civil Service

A 10.0% GF/GP reduction equates to $697,200. The impact of these cuts would result in the layoff of approximately 22 FTEs.

Community Colleges

A 10.0% GF/GP reduction equates to $28,987,900. On the average, GF/GP funding accounts for 22.3% of total Community Colleges operating budgets. The impact of the 10.0% reduction in State appropriations equals a 2.2% reduction in the average operating budget for Community Colleges.

Department of Community Health

A 10.0% GF/GP reduction equates to $294,008,300. The major components of this reduction would include:

1. Eliminating all programming funded with Healthy Michigan Fund: $26,793,200
2. Eliminating Community Mental Health multi-cultural funding: $5,163,800
3. Implementing 7.5% rate reduction for nonmanaged care Medicaid providers and local public health agencies. The reductions would not apply to health maintenance organizations and community mental health boards because of Federal requirements: $49,032,800.
4. Reducing graduate medical education payments by 50.0%: $18,538,500
5. Eliminating caretaker relative coverage under Medicaid: $28,730,300
6. Implementing 7.5% rate reduction for health maintenance organization Medicaid providers. This may not be approved by the Federal government: $16,892,200
7. Eliminating various Medicaid optional services (adult dental, podiatric, chiropractic, hearing aid): $4,000,000

8. Implementing physician quality assurance assessment program similar to Governor's proposal for FY 2005-06: $25,000,000
9. Eliminating Disproportionate Share Hospital payments to hospitals that treat a high percentage of uninsured and Medicaid clients: $10,905,000
10. Eliminating Medicaid provider increases enacted in FY 2005-06 and FY 2006-07 for Community Mental Health wage increase, adult home health, physician services, etc.: $12,768,800
11. Eliminating the Home and Community Based Waiver Program: $21,810,000
12. Eliminating senior citizen volunteer services programs: $2,812,500
13. Implementing a 45.0% reduction in Community Mental Health payments for non-Medicaid eligible clients: $71,561,200.

Department of Corrections

A 10.0% GF/GP reduction equates to $190,032,200. The major components of the reduction would include:

1. Eliminating academic and vocational education programs. This would require a statutory change to allow prisoners with a minimum sentence of more than two years to be granted parole without a GED. There are 375.0 FTEs appropriated in this program: $18,431,500.
2. Eliminating substance abuse treatment and testing: $9,155,500.
3. Enacting various reductions in community corrections programs: $3,845,000.
4. Reducing clerical staff in the Department. This would result in layoffs of approximately 400 FTEs: $5,899,700.
5. Reducing workers' compensation funding to reflect projected expenditures: $2,000,000.
6. Closing existing facilities. Close 12 correctional facilities and four prison camps on April 1, 2007. These facilities house 13,454 prisoners and employee 3,250 FTEs. This reduction would be accomplished by paroling prisoners who are currently eligible for parole and moving nonparole eligible prisoners from the prisons that are closing to other facilities which are staying open: $169,860,000.
7. Factor in layoff costs from prison closures and assume that all but 1,700 of the 3,250 FTEs laid off from the facilities closers will fill other vacancies within the Department. These layoff costs include annual leave payouts, insurance costs and unemployment costs: $(20,301,400).
8. Housing an additional 240 Level IV prisoners at the Mound Correctional Facility: $(2,400,000).
9. Hiring an additional 124 new parole field agents to handle increased parole count from the closure of facilities: $(4,314,600).
10. Closing community re-entry centers and placing these offenders on electronic tether: $6,081,600.
11. Reducing funding from the Michigan Prisoner Re-Entry Initiative by 15.0%: $1,600,000.

Department of Education

A 10.0% GF/GP reduction equates to $659,300. The major components of this reduction would include:

1. Eliminating funding for the Best Practices Study: $175,000.
2. Reducing Departmental operational funding by 8.5%. This could result in a small level of Departmental layoffs: $484,300.

Department of Environmental Quality

A 10.0% GF/GP reduction equates to $3,383,300. Revenue from selected State restricted funds sources may be available to partially offset General Fund reductions, which would mitigate layoffs and program reductions. The major components of this reduction would include:

Attachment A

1. Reducing administrative programs by 2.2% of Gross appropriations, not including building occupancy charges or rental payments: $541,800.
2. Reducing air quality monitoring by 2.0% of Gross appropriations. This would reduce the monitoring of air toxics and air quality: $480,700.
3. Reducing environmental services and pollution prevention programs by 0.8% of Gross appropriations: $103,800.
4. Reducing all land and water management programs by 5.7% of Gross appropriations: $756,000 (likely to result in layoffs).
5. Reducing environmental cleanup site remediation by 1.1%of Gross appropriations: $327,300.
6. Reducing waste and hazardous materials programs by 2.1% of Gross appropriations: $157,000.
7. Reducing surface water, stormwater, and drinking water programs by 2.4% of Gross appropriations: $1,017,200.

Executive Office

A 10.0% GF/GP reduction equates to $550,900. These reductions would likely result in a number of layoffs to the 74.2 FTE authorization for the Executive Office.

Higher Education

A 10.0% GF/GP reduction equates to $162,478,900. The major components of this reduction would include:

1. Reducing funding for all 15 universities, Agricultural Experiment Station, Cooperative Extension Service, Higher Education database, and the King-Chavez-Parks competitive grants by 9.32%: $142,478,900. State appropriations as a percentage of total university general fund revenue are not uniform, and range from 49.5% at Wayne State University to 27.9% at the University of Michigan-Ann Arbor.
2. The Office of the Auditor General has recommended the establishment of an account payable for unclaimed scholarships in the Michigan Merit Award program. This proposal would eliminate the funding of the accounts payable: $20,000,000.

Department of History, Arts, and Libraries

A 10.0% GF/GP reduction equates to $4,317,500. The major components of this reduction would include:

1. Reducing arts and cultural grants by 20.0%: $1,888,900.
2. Reducing State aid to libraries by 20.0%: $2,428,600.

Department of Human Services

A 10.0% GF/GP reduction equates to $119,744,800. The major components of this reduction would include:

1. Reducing Family Independence Program funding by 4.7% of Gross appropriation. This GF/GP reduction would put the State very close to the Federally mandated State maintenance of effort requirement: $16,580,100.
2. Reducing Indigent Burial Program by 44.1% of Gross appropriation: $2,600,000.
3. Reducing Day Care funding by 0.8% of Gross appropriation: $3,867,800.
4. Reducing Foster Care funding by 4.4% of Gross appropriation: $8,207,800.

5. Reducing Child Care funding by 28.0% of Gross appropriation. This would require a statutory change to eliminate the 50.0% reimbursement to local government. This may also create problems with Federally mandated State maintenance of effort requirements: $54,500,000.
6. Reducing Adoption Subsidy funding by 1.1% of Gross appropriations: $2,573,600.
7. Reducing Juvenile Justice facilities funding by 2.8% of Gross appropriations: $1,509,000.
8. Reducing Departmental wide contracts, supplies, and other purchases by 15.9% of Gross appropriations: $3,902,100.
9. Reducing Executive Office staff by 75 FTEs: $1,478,700.
10. Reducing field office staff by 510 FTEs: $10,111,800.
11. Reducing Juvenile Justice field staff by 115 FTEs: $19,11,700.
12. Reflecting savings from staff reductions on fringe benefit costs: $5,659,500.
13. Reducing Food Stamp Reinvestment project by 16.5% of Gross appropriation: $1,867,800.
14. Reducing Departmental Information Technology costs by 2.9% of Gross appropriation: $3,885,300.
15. Reducing Child Support Enforcement funding by 4.7% of Gross appropriation: $1,089,600.

Judiciary

A 10.0% GF/GP reduction equates to $16,100,000. The reduction in the Judiciary budget would be accomplished by a uniform reduction in all programs in the budget with the exclusion of Judges' salaries, which are set by the constitution. The percentage reduction to all programs would equate to 21.9% of Gross appropriations. This type of reduction would result in the layoff of approximately 80 FTEs and could have an impact on the level of employees in local courts.

Department of Labor and Economic Growth

A 10.0% GF/GP reduction equates to $4,743,700. This reduction would be accomplished by reducing available grant funds by an amount of 23.45%. This would exclude grant funds used for Federal matching requirements and already distributed grants. These grants include personal assistance services, vocational rehabilitation independent living, liquor law enforcement, and fire protection grants to local governments.

Legislature

A 10.0% GF/GP reduction equates to $12,807,200. These reductions would likely result in a number of layoffs for staff employed by the Legislature.

Department of Management and Budget

A 10.0% GF/GP reduction equates to $3,570,750. This reduction excludes the GF/GP appropriation for State Building Authority rental payments. The major components of the reduction options include:

1. Reducing administrative operations of the department by 10.0%. This could result in the layoffs of approximately 10 FTEs: $290,600.
2. Reducing utility costs to reflect lower heating costs: $81,500.
3. Reducing motor vehicle fleet costs by 5.0%: $2,836,200.
4. Delaying call center project in retirement services: $350,000.
5. Reducing information technology costs by 3.0%: $36,000.

Attachment A

Department of Military and Veterans Affairs

A 10.0% GF/GP reduction equates to $4,064,000. The major components of the reduction would include:

1. Eliminating grants to veteran service organizations beginning in April 2007: $1,956,200.
2. Eliminating one administrative position for administration: $49,200.
3. Reducing GF/GP funding of the Grand Rapids and Jacobetti Veterans homes by 9.36%. This reduction is likely to lead to a reduction in services and layoffs at the veterans homes: $2,058,600.

Department of Natural Resources

A 10.0% GF/GP reduction equates to $3,949,100. Revenue from selected State restricted funds sources may be available to partially offset General Fund reductions, which would mitigate layoffs and program reductions. The major components of the reduction would include:

1. Reducing payments in lieu of property taxes on State-owned lands to local government units by 50.0% on the winter property tax bills: $2,700,000.
2. Reducing Departmental administration by 1.4% of Gross appropriations: $317,400.
3. Reducing all land and real estate activities by 0.2% of gross appropriations: $34,600.
4. Reducing wildlife funding by 0.7% of Gross appropriations: $208,800.
5. Reducing forest, mineral, and fire management funding by 2.5% of Gross appropriations: $465,100.
6. Reducing law enforcement activities by 0.7% of Gross appropriations: $223,200.

School Aid

Pursuant to provisions of the State School Aid Act, the projected FY 2006-07 School Aid Fund deficit of $377.4 million will be eliminated by a pro-rata reduction of an estimated $215 in the basic foundation allowance, and some proportional reductions in funding to intermediate districts and non-school entities receiving funds in the School Aid Act. These reductions will take place unless the Governor and the Legislature agree on an alternative plan to eliminate the projected budget deficit. The following is an alternative plan to eliminate the School Aid Fund deficit by reductions in appropriations:

1. Eliminate Sec. 20J funding of hold harmless mills for certain schools and allow these school districts to ask the voters to approve an operating property tax increase to make up for the lost revenue: $52,800,000.
2. Eliminate the funding for the following categorical grants that have already been placed on hold pursuant to action by the Department of Education. These categorical grants are: Mercy education project, children of incarcerated parents, book a month, early intervening, conductive learning center study, international baccalaureate. Kalamazoo pre-college engineering, automatic external defibrillators, school mapping, positive behavior support and web-based testing: $5,225,000.
3. Eliminate all funding for new grant programs. These programs include: middle school math, equity payments, declining enrollment, Inkster Public Schools, FIRST robotics, and health/science middle college: $62,275,000.
4. Reduce recent funding increases for other grants. These include: adult education, interagency early childhood grants, great start ISD, and math and science centers: $7,174,000.
5. Reduce all other nonmandated categorical grants by 46.0%. These include: at-risk, adult education, school readiness, youth challenge, interagency early childhood, great start ISD, bilingual education, special education millage equalization, special education lending libraries, gifted and talented, vocational education, pre-college engineering, and math and science centers: $238,475,638.

Attachment A

Department of State

A 10.0% GF/GP reduction equates to $1,954,500. The major components of the reduction would include:

1. Reducing Departmental staffing in administrative positions by 10.0%. The result would be a layoff of 4 FTEs: $114,900.
2. There are currently 153 standard branch offices, 22 plus center branches and five super center branches. Closing the five super center branch offices would result in the potential layoffs of 55.7 FTEs: $1,750,000.
3. 3) Reducing qualified voter file funding by 3.0%: $56,500.
4. Reducing information technology appropriations by 3.0%: $33,000.

Department of State Police

A 10.0% GF/GP reduction equates to $24,929,900. The major components of the reduction would include:

1. Eliminating secondary road patrol grants to counties effective April 1, 2007: $6,000,000.
2. Eliminating GF/GP support for the Michigan Council on Law Enforcement Standards administrative functions and replace with Michigan Justice Training Fund revenue originally slated for justice training grants: $950,000.
3. Eliminating Michigan Justice Training Fund grants effective April 1, 2007: $3,400,000.
4. Eliminating auto theft prevention grants effective April 1, 2007: $3,400,000.
5. Lapsing to the General Fund unspent carryforward balance in the Auto Theft Prevention Fund: $6,200,000.
6. Eliminating funding for the August 2007 trooper school: $2,500,000.
7. Laying off 24 Michigan State Police troopers and one civilian employee: $2,479,900.

Department of Transportation

The appropriation for the Department of Transportation is funded with constitutionally earmarked motor fuel taxes and vehicle registration fees, with the exception of programs funded from the Comprehensive Transportation Fund. The Comprehensive Transportation Fund is funded from a combination of constitutionally earmarked revenue and sales tax revenue dedicated by statute. The programs funded with Comprehensive Transportation Fund revenue can be reduced up to the level of the sales tax included in the Fund and the savings result in GF/GP increased revenue. The proposed reduction in programs funded with Comprehensive Transportation Fund revenue is $15.9 million. The major components of this reduction would include:

1. Reducing local bus operating subsidies by 2.0%. This returns the funding to the FY 2005-06 level: $3,347,900.
2. Reducing intercity passenger and freight programs by 22.8%. This returns the funding to the FY 2005-06 level: $3,700,000.
3. Reducing bus capital grants to locals by 25.4%. This returns the funding to the statutory minimum: $6,909,300.
4. Reducing specialized services funding by 11.5%. This returns the funding to the FY 2005-06 level: $470,200.
5. Reducing transportation to work funding by 25.7%. This returns the funding to the FY 2005-06 level: $1,244,000.

Department of Treasury

A 10.0% GF/GP reduction equates to $5,650,000. The major components of the reduction would include:

1. Reducing the revenue enhancement line-item by using prior fiscal year carry-forward revenue plus reduce funding for the personal property tax audit and principal homestead exemption audits. These programs in FY 2006-07 can be funded out of unspent prior year balances: $3,700,000.
2. Reducing the funding for senior citizen cooperative housing tax exemptions to reflect balances from prior fiscal years and the reduction of assessments for several large facilities: $1,450,000.
3. Reducing funding of telephone/telegraph property tax appraisals to reflect vacant positions currently not filled in this program: $500,000.

Department of Treasury-Strategic Fund Agency

A 10.0% GF/GP reduction equates to $3,200,900. The major components of this reduction include:

1. Reducing administrative funding by 2.0%: $49,000.
2. Reducing job creation services by 2.0%: $349,900.
3. Reducing economic development job training grants by 21.3%: $2,084,500.
4. Reducing Michigan promotion program by 12.6%: $717,600

Department of Treasury-Revenue Sharing

The FY 2006-07 appropriation for revenue sharing payments includes payments of $892,400 for special census revenue sharing. These payments are for local units of government who have exhibited significant population growth since the 2000 census. Eliminating these payments does not affect other revenue sharing payments. Revenue sharing payments to cities, villages, and townships are funded from constitutionally and statutory earmarked sales tax revenue. The FY 2006-07 appropriation for statutory revenue sharing payments is $405,900,000. If the statutory revenue sharing payments are reduced effective with payments made after April 1, 2007, the remaining amount of these payments would be $158.3 million. If the remaining payments were reduced by 25.6%, this would equate to a 10.0% reduction in the level of statutory revenue sharing payments for the fiscal year. This reduction would be $40,500,000.